

Investment Rating

Buy

Pricing

Closing Price	\$32.43
52 Week High	\$42.82
52 Week Low	\$23.75

Profitability & Effectiveness (ttm)

ROA	12.0%
ROE	27.4%
Gross Margin	27.9%
Profit Margin	10.80%

Market Data

Total Assets (mil)	1,149.8
Volume (mil)	2.464
Avg. Daily Vol.	2.524
Div & Yield	.4(1.2%)
Market Cap (bil)	10.13
EPS (ttm)	4.84
P/E (ttm)	6.70

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D.R. Horton Inc. (DHI)

I. Investment Highlights**Company Profile**

D.R. Horton, based in Fort Worth, Texas, was established in 1978. D.R. Horton, Inc., along with its subsidiaries, engages in the construction and sale of single-family homes in the United States. The company operates in two segments, Homebuilding and Financial Services. The Homebuilding segment acquires and develops land for residential purposes; and constructs and sells residential homes. This segment builds traditional single-family detached homes, as well as attached homes, such as town homes, duplexes, triplexes, and condominiums; and sells land and lots. The Financial Services segment originates and sells mortgages to purchasers of its homes; and loans to third-party lenders, who directly originate the mortgage loans. It also provides title insurance policies, examination, and closing services to purchasers. The company markets and sells homes through commissioned employees and independent real estate brokers.

II. Executive Summary

D.R. Horton, Inc. (D.R. Horton) is a homebuilding company dedicated to building quality crafted, distinctive homes in the United States. The Company constructs and sells single-family homes through its operating divisions. Horton has a history of having consistent growth and now constructs homes in 25 states and 74 metropolitan markets of the United States, under the name of D.R. Horton, America's Builder. The Company's homes range in size from 1,000 to 5,000 square feet. Through its financial services operations, D.R. Horton provides mortgage banking and title agency services to homebuyers in its homebuilding markets. DHI Mortgage, the Company's wholly owned subsidiary, provides mortgage financing services to purchasers of homes the Company builds and sells. D.R. Horton's subsidiary title companies serve as title insurance agents by providing title insurance policies, examination and closing services to purchasers of homes the Company builds and sells.

Investment Recommendation: Buy

Pros:

- Continuous increase in home sales in America
- Provides buyers with mortgages through wholly owned subsidiary
- Provides title insurance policies, examination and closing services to purchasers through subsidiary companies

Cons:

- Have experienced impressive growth for the last four or five years and there is speculation that this growth will cease

Critical Factors

D.R. Horton has invested serious time and money into expanding development across America. They provide buyers with a one stop shop to home ownership, which is a reason for their tremendous growth. However, for them to stay as financially stable and continue to grow, the real estate market also needs to continue grow. It is speculated that we are in a real estate bubble that could potentially be a serious threat to the demand for housing. As time goes on there is a possibility that there will be overbuilding and the power will switch from the sellers to the buyers. It is essential for D.R. Horton to realize new ways to encourage demand if it wants to continue to grow.

III. Company Description

D.R. Horton has grown from modest beginnings just over a quarter century ago to becoming the Nation's leading homebuilder. At the heart of that success is a commitment to deliver value for families. Horton strives to create a better experience for their

customers, which led them to providing mortgage financing and title insurance adding to the buying experience. Because of Horton's growing reputation for quality, they enjoy an increasing number of repeat customers and referrals from real estate professionals. The growth over the last few years is astonishing and Horton will be offering its products and services to an increasing number of clients and customers.

Horton understands that buyers are entrusting them with what is likely to be one of the biggest investments of their life and are committed to honoring that trust by providing the best quality homes and financing solutions possible. Customers also enjoy the confidence of working with a professional, customer focused team that enjoys the stability of being a Fortune 500© Company.

IV. Economic & Industry Environment

Industry as a Whole

D.R. Horton is in the Residential Construction Industry and the Industrial Goods sector. The 2002 construction statistics from the U.S. Census Bureau indicate that residential construction represents approximately 49% of the value of building construction in America, or over \$336 billion. In the United States, there are:

- nearly 80 million residential buildings and
- an average of almost 1,600,000 residential units built each year; approximately 78% contain single residences and the remaining units containing multiple residences.

Home construction and long-term operation require a tremendous amount of resources. With the average square footage of homes doubling from the 1940s and 1950s to 1999, more resources are used to build and operate them.

- Building construction and operation is accountable for one-third of all energy use in the United States.
- Construction often degrades water quality in streams, wetlands, and groundwater near construction sites.
- Plumbing and appliances contribute to large amounts of water use within the home. One study indicates that between the years 1900 and 2000, residents increased per person water consumption from 5 to 10 gallons a day to 50 to 100 gallons a day.
- As estimated in 1996, 43% (58 million tons per year) of construction and demolition (C&D) debris is generated from residential construction, renovation and demolition. This material often ends up in landfills where it occupies space and may potentially cause additional adverse environmental effects. Source:
- Building construction, operation, and maintenance contribute significantly to air pollution, which contributes to acid rain, climate change, health problems, and other impacts resulting from degraded air quality.

- A growing body of scientific evidence indicates that indoor air can be more seriously polluted than the outdoor air in even the largest and most industrialized cities.

People everywhere feel the pressures of limited land, air, and water, pollution, liability and health insurance costs, energy shortages and costs, waste management tensions, and habitat loss. The ideal of pollution prevention is to use all resources in the most efficient manner and to eliminate waste and pollution before it is produced. During the past several years, the residential construction industry has recognized a need to incorporate pollution prevention practices into daily activities and has begun to achieve these changes through green building, which is also known as resource-efficient construction, or sustainable design techniques. Sustainably built homes:

- Conserve natural resources
- Minimize waste products
- Conserve energy
- Create a healthy environment for occupants

Gallup poll surveys show that a majority of citizens embrace environmental protection, even if it risks economic growth. Individuals and communities are looking for ways to actively take part in the protection of resources and habitats. They are finding that their homes provide an avenue to demonstrate efficient resource use and environmental protection. According to direct surveys and market research, the vast majority of homebuyers are willing to pay extra for features that improve quality, durability and the health of the house.

Consumer preferences and changing demographics have already started to change the way new homes are built. Building homes with pollution prevention is advantageous for the builder as well as the new occupant. In the years to come the residential construction industry will standardize ways of pollution prevention. Companies who want to stay competitive and financially stable will start to and continue to develop ways of helping the environment or preventing damage of it as they build. Doing these things will help generate demand and guarantee that the residential construction industry continues to grow. A list of some benefits are as follows:

To Builders

- Reduced disposal costs
- Enhanced health and safety for workers
- Reduced material and labor costs
- Reduced liability
- Improved market appeal
- Community leadership status

To Consumers

- Reduced utility and maintenance costs
- Occupant satisfaction
- Increased health
- Durability
- Strong resale value
- Stronger communities
- Increased global security (less reliance on imports)

V. Competition

The competition surrounding the residential construction industry as well as D.R. Horton is intense. Builders and developers are producing housing in every imaginable place possible. Companies are constantly trying to expand into new markets to take advantage of the increased demand for housing in the past couple of years. Some of Horton's major competitors include Centex Corp.(CTX), Lennar Corp.(LEN), and Pulte Homes Inc(PHM). These competitors are all involved in the same business and are all experiencing high amounts of growth. These companies are somewhat similar in that they all are involved in construction of homes and offer their customers in house financing. Ways to differentiate from each other are becoming ever more important. Pulte Homes for example is planning on constructing apartment developments for baby boomers. As they start to get older and stay active their needs and wants will also change. Baby boomers are expected to comprise a major portion of business in the years to come.

D.R. Horton is doing well in competing against its competitors as they focus on quality and growth. They are enjoying revenue growth that is very rare as well as ranking third in market capitalization. The following chart will illustrate how they are doing relative to their competitors.

Competitive Analysis

Direct Competitor Comparison

	DHI	CTX	LEN	PHM	Industry
Market Cap:	10.13B	7.61B	9.08B	9.74B	2.28B
Employees:	8,900	17,134	13,687	13,400	3.50K
Qtrly Rev Growth (yoy):	15.20%	25.00%	41.70%	24.90%	24.30%
Revenue (ttm):	14.25B	14.78B	13.87B	14.69B	3.00B
Gross Margin (ttm):	26.50%	13.69%	16.09%	15.62%	25.90%
EBITDA (ttm):	2.53B	2.08B	2.24B	2.43B	660.88M
Oper Margins (ttm):	17.41%	13.06%	14.74%	15.62%	17.21%
Net Income (ttm):	1.54B	1.29B	1.34B	1.44B	218.74M
EPS (ttm):	4.838	9.451	8.234	5.677	6.28
P/E (ttm):	6.70	6.56	6.95	6.66	6.64
PEG (5 yr expected):	0.40	0.40	0.41	0.50	0.40
P/S (ttm):	0.71	0.52	0.66	0.66	0.64

VI. Management

D.R. Horton Inc.'s management is committed to customer satisfaction and creating value. They look for any opportunity to grow and serve more clients. They will enter into new markets through acquisition, merger, or expanding their operations. This is a credit to the management since going through the process to enter a new market is very challenging. Not only do they successfully choose the mode of entry they continually strategically manage operations all over the country.

For shareholders and investors Horton's policy entails disclosure of financial results that are accurate, reported in a timely manner, as well as disclosure of its management strategies. Investors and shareholders can also be at ease that the founder is still an active part of this company.

Officers & Directors

Bradley S Anderson, 44 (Officer since 1998)

Director

Michael R Buchanan , 57 (Officer since 2003)

Director

Stacey H Dwyer, 38 (Officer since 2000)

Executive Vice President and Treasurer

Samuel R Fuller, 61 (Officer since 2000)

Senior Executive Vice President

Richard I Gallan, 88 (Officer since 1992)

Director

Michael W Hewatt (Officer since 2005)

Director

Donald R Horton, 54 (Officer since 1991)

Chairman of the Board

Francine I Neff, 79 (Officer since 1992)

Director

Donald J Tomnitz, 56 (Officer since 1983)

Vice Chairman of the Board, President, and Chief Executive Officer

Bill W Wheat, 38 (Officer since 2000)

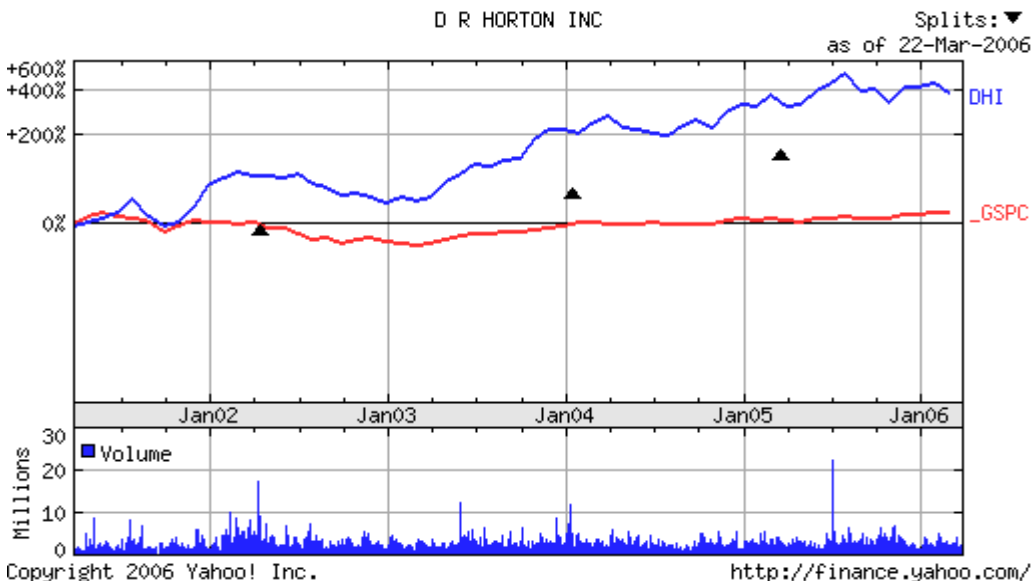
Chief Financial Officer, Executive Vice President, and Director

VII. Financial Statement & Ratio Analysis

Trend Analysis (DHI vs. S&P500)



You can see by looking at this graph that D.R. Horton Inc.'s stock price percentage follows the market trend very closely. This is similar in the residential construction industry in general. Since this is one of the billion dollar industries it has a great affect on the overall market.



Looking at the five year analysis, you can continue to see how D.R. Horton Inc.'s stock price percentage continues to move farther and farther away in the opposite direction of the S&P. Not only has Horton managed to consistently outperform the market, but it has

steadily increased the margin between the two. This is largely due to the fact that Horton has been so good at growing taking every opportunity to emerge into new markets. This too could be due to the financial services it provides or the pollution prevention techniques it follows. Through all of these things Horton has increase its market share and is now servicing a lot more customers.

D.R. Horton Inc.'s revenues have increased at an annual rate of 30.57% over the past five years. Their dividend per share has increased 48.93% and their earnings per share has increased 40.51% over the same time span.

Additionally they have a quick ratio of .12, and a current ratio of 2.91. There total debt to equity of .9159, shows that they are doing an efficient job at managing there funds. The return on equity is equal to 31.49%, and there return on assets is equal to 13.86%.

Income Statement

<u>PERIOD ENDING</u>	<u>31-Dec-05</u>	<u>30-Sep-05</u>	<u>30-Jun-05</u>	<u>31-Mar-05</u>
<u>Total Revenue</u>	<u>2,903,100</u>	<u>5,096,800</u>	<u>3,370,100</u>	<u>2,876,700</u>
<u>Cost of Revenue</u>	<u>2,036,400</u>	<u>3,755,100</u>	<u>2,430,700</u>	<u>2,107,400</u>
<u>Gross Profit</u>	<u>866,700</u>	<u>1,341,700</u>	<u>939,400</u>	<u>769,300</u>
<u>Operating Expenses</u>				
<u>Research Development</u>	-	-	-	-
<u>Selling General and Administrative</u>	<u>373,000</u>	<u>442,400</u>	<u>340,500</u>	<u>300,900</u>
<u>Non Recurring</u>	-	-	-	-
<u>Others</u>	-	-	-	-
<u>Total Operating Expenses</u>	-	-	-	-
<u>Operating Income or Loss</u>	<u>493,700</u>	<u>899,300</u>	<u>598,900</u>	<u>468,400</u>
<u>Income from Continuing Operations</u>				
<u>Total Other Income/Expenses Net</u>	<u>19,100</u>	<u>17,200</u>	<u>9,500</u>	<u>12,300</u>
<u>Earnings Before Interest And Taxes</u>	<u>512,800</u>	<u>916,500</u>	<u>608,400</u>	<u>480,700</u>
<u>Interest Expense</u>	<u>12,700</u>	<u>12,100</u>	<u>4,100</u>	<u>2,600</u>
<u>Income Before Tax</u>	<u>500,100</u>	<u>904,400</u>	<u>604,300</u>	<u>478,100</u>
<u>Income Tax Expense</u>	<u>190,000</u>	<u>340,600</u>	<u>232,600</u>	<u>184,100</u>
<u>Minority Interest</u>	-	-	-	-
<u>Net Income From Continuing Ops</u>	<u>310,100</u>	<u>563,800</u>	<u>371,700</u>	<u>294,000</u>
<u>Non-recurring Events</u>				
<u>Discontinued Operations</u>	-	-	-	-
<u>Extraordinary Items</u>	-	-	-	-
<u>Effect Of Accounting Changes</u>	-	-	-	-
<u>Other Items</u>	-	-	-	-
<u>Net Income</u>	<u>310,100</u>	<u>563,800</u>	<u>371,700</u>	<u>294,000</u>
<u>Preferred Stock And Other Adjustments</u>	-	-	-	-
<u>Net Income Applicable To Common Shares</u>	<u>\$310,100</u>	<u>\$563,800</u>	<u>\$371,700</u>	<u>\$294,000</u>

Balance Sheet

<u>PERIOD ENDING</u>	<u>30-Sep-05</u>	<u>30-Sep-04</u>	<u>30-Sep-03</u>
<u>Assets</u>			
<u>Current Assets</u>			
<u>Cash And Cash Equivalents</u>	<u>1,149,800</u>	<u>518,000</u>	<u>582,905</u>
<u>Short Term Investments</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Net Receivables</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Inventory</u>	<u>8,486,800</u>	<u>6,567,400</u>	<u>5,082,295</u>
<u>Other Current Assets</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total Current Assets</u>	<u>9,636,600</u>	<u>7,085,400</u>	<u>5,665,200</u>
<u>Long Term Investments</u>	<u>1,358,700</u>	<u>623,300</u>	<u>485,485</u>
<u>Property Plant and Equipment</u>	<u>107,200</u>	<u>91,900</u>	<u>81,675</u>
<u>Goodwill</u>	<u>578,900</u>	<u>578,900</u>	<u>578,900</u>
<u>Intangible Assets</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Accumulated Amortization</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Other Assets</u>	<u>833,400</u>	<u>605,700</u>	<u>468,117</u>
<u>Deferred Long Term Asset Charges</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total Assets</u>	<u>12,514,800</u>	<u>8,985,200</u>	<u>7,279,377</u>
<u>Liabilities</u>			
<u>Current Liabilities</u>			
<u>Accounts Payable</u>	<u>2,041,600</u>	<u>1,358,900</u>	<u>1,149,093</u>
<u>Short/Current Long Term Debt</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Other Current Liabilities</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total Current Liabilities</u>	<u>2,041,600</u>	<u>1,358,900</u>	<u>1,149,093</u>
<u>Long Term Debt</u>	<u>4,909,600</u>	<u>3,499,200</u>	<u>2,963,123</u>
<u>Other Liabilities</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Deferred Long Term Liability Charges</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Minority Interest</u>	<u>203,200</u>	<u>166,400</u>	<u>135,901</u>
<u>Negative Goodwill</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total Liabilities</u>	<u>7,154,400</u>	<u>5,024,500</u>	<u>4,248,117</u>
<u>Stockholders' Equity</u>			
<u>Misc Stocks Options Warrants</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Redeemable Preferred Stock</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Preferred Stock</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Common Stock</u>	<u>3,200</u>	<u>2,400</u>	<u>1,574</u>
<u>Retained Earnings</u>	<u>3,791,300</u>	<u>2,417,300</u>	<u>1,509,079</u>
<u>Treasury Stock</u>	<u>(58,900)</u>	<u>(58,900)</u>	<u>(58,859)</u>
<u>Capital Surplus</u>	<u>1,624,800</u>	<u>1,599,900</u>	<u>1,581,629</u>
<u>Other Stockholder Equity</u>	<u>-</u>	<u>-</u>	<u>(2,163)</u>
<u>Total Stockholder Equity</u>	<u>5,360,400</u>	<u>3,960,700</u>	<u>3,031,260</u>
<u>Net Tangible Assets</u>	<u>\$4,781,500</u>	<u>\$3,381,800</u>	<u>\$2,452,360</u>

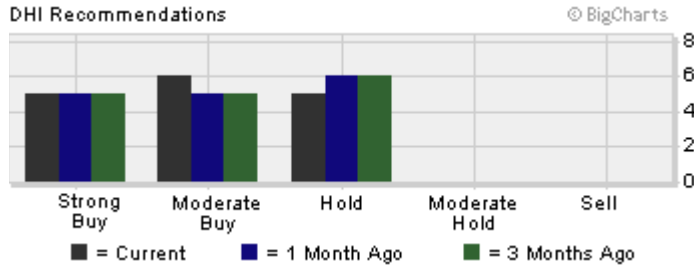
Cash Flow Statement

<u>PERIOD ENDING</u>	<u>30-Sep-05</u>	<u>30-Sep-04</u>	<u>30-Sep-03</u>
<u>Net Income</u>	<u>1,470,500</u>	<u>975,100</u>	<u>625,955</u>
<u>Operating Activities, Cash Flows Provided By or Used In</u>			
<u>Depreciation</u>	<u>57,100</u>	<u>55,500</u>	<u>45,861</u>
<u>Adjustments To Net Income</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Changes In Accounts Receivables</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Changes In Liabilities</u>	<u>589,200</u>	<u>191,100</u>	<u>249,422</u>
<u>Changes In Inventories</u>	<u>(1,855,200)</u>	<u>(1,411,100)</u>	<u>(486,006)</u>
<u>Changes In Other Operating Activities</u>	<u>(882,300)</u>	<u>(233,100)</u>	<u>(11,913)</u>
<u>Total Cash Flow From Operating Activities</u>	<u>(620,700)</u>	<u>(422,500)</u>	<u>423,319</u>
<u>Investing Activities, Cash Flows Provided By or Used In</u>			
<u>Capital Expenditures</u>	<u>(68,200)</u>	<u>(55,200)</u>	<u>(48,668)</u>
<u>Investments</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Other Cashflows from Investing Activities</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total Cash Flows From Investing Activities</u>	<u>(68,200)</u>	<u>(55,200)</u>	<u>(48,668)</u>
<u>Financing Activities, Cash Flows Provided By or Used In</u>			
<u>Dividends Paid</u>	<u>(96,500)</u>	<u>(66,900)</u>	<u>(40,097)</u>
<u>Sale Purchase of Stock</u>	<u>24,800</u>	<u>15,400</u>	<u>(47,298)</u>
<u>Net Borrowings</u>	<u>1,392,400</u>	<u>464,300</u>	<u>191,305</u>
<u>Other Cash Flows from Financing Activities</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total Cash Flows From Financing Activities</u>	<u>1,320,700</u>	<u>412,800</u>	<u>103,910</u>
<u>Effect Of Exchange Rate Changes</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Change In Cash and Cash Equivalents</u>	<u>\$631,800</u>	<u>(\$64,900)</u>	<u>\$478,561</u>

Financial Forecasts (from analysts)

DHI D.R. Horton, Inc. (NYSE) 32.43 ▲+0.08 (+0.25%) 12:00 AM ET 3/22/06

Analyst
Broker Recs



	Current	1 Mo. Ago	3 Mo. Ago
Strong Buy	5	5	5
Moderate Buy	6	5	5
Hold	5	6	6
Moderate Hold	0	0	0
Sell	0	0	0
Mean	BUY	BUY	BUY

Avg. Recommend.	BUY
Number of Ratings	16
FY Report Date	9/2006
Av. Target Price	\$46.09
Current Qtrs. Est.	\$1.09
Current Yrs. Est.	\$5.33
PE on CY Est.	7.02
Next Fisc. Yrs. Est.	\$5.33
PE on Next FY	6.09
Last Qtrs Earnings	\$0.98
Year-Ago Earnings	\$4.62

RECOMMENDATION SUMMARY*

Mean Recommendation (this week):	2.0
Mean Recommendation (last week):	2.1
Change:	-0.1
Industry Mean:	
Sector Mean:	
S&P 500 Mean:	2.46

* (Strong Buy) 1.0 - 5.0 (Strong Sell)

Analysts on various websites recommended D.R. Horton Inc. as a strong buy. Although they have a low dividend yield, they at least pay a dividend, and are associated with a low level of risk. The is great potential for a high return they have grown astronomically over the past five years, constantly outperformed the market, and experienced growth

percentages as high as 49%. They also show high ROE and ROA which contributes greatly to their profitability.

Analysis of Risk

D.R. Horton is traded on the NYSE with the ticker symbol (DHI). The average daily trading volume 2.524 (in millions). The share price had a 52 week high of and a 52 week low of . The current Beta of Horton is measured at 1.34.

Fundamental Valuation

Estimation of Discount Rate

The discount rate involves data that has been gathered over the past ten years. The idea is that what ever happened in the past has an influence on what will happen in the future and you can make forecast based on past returns. I will use the risk free rate from the Wall Street Journal, and the average market risk over the past 10 years. The Beta I will use to calculate value is from Yahoo.

- Beta = 1.34 yahoo
- Risk Free Rate = 4.6%
- Risk Premium =6%
- Avg. Market Risk = 11%

$$\text{Cost of Equity} = R_f + B(\text{Risk Premium}) = .046 + 1.34(.06) = 12.64\%$$

In valuing Horton I will be using the Warren Buffet Model to estimate the intrinsic value of the company based on future cash flows.

Normal Growth

Discount rate (k) = 12.64%
Intrinsic Value of Company = 16,677,184.96
Growth Rate = 7%
Second Stage Growth Rate = 3.5%
Estimated Intrinsic Value = \$53.56

Impressive Growth

Discount rate (k) = 12.64%
Intrinsic Value of Company = 16,677,184.96
Growth Rate = 15%
Second Stage Growth Rate = 8.5%
Estimated Intrinsic Value = \$133.83

Conclusion

D.R. Horton has been consistently growing over the past five years. They continually look for areas to grow and expand. They value their customers experience and build relationships with clients. By providing quality unique housing they have earned highly increased revenues each year. They participate in pollution prevent methods that attract many new customers who are increasingly concerned with environmental protection. They are financially viable and stable. Their valuation ratios are all higher than average. Many financial analysts believe currently that it is a strong buy.

Recommendation

My recommendation is to strong buy or buy. This company will continue to grow as it has done for the past five years. Horton is committed to growing and is undervalued according to the Warren Buffett Model. This stock should outperform the market and be stable as long as real estate demand stays somewhat constant.

Sources:

National Association of Home Builders, Units Completed 2002

U.S. Department of Energy

Source: National Wildlife Federation

U.S. EPA, Office of Solid Waste

finance.yahoo.com

finance.google.com

thestreet.com